

ORIGINAL



MEMORANDUM

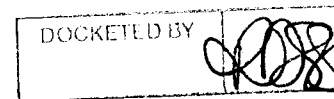
TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

Arizona Corporation Commission

DOCKETED

OCT 22 2010



DATE: October 22, 2010

RE: STAFF REPORT FOR HEART CAB CO., INC. DBA SULGER WATER COMPANY #2'S APPLICATIONS FOR A PERMANENT RATE INCREASE AND FINANCING APPROVAL (DOCKET NOS. W-02355A-09-0275 AND W-02355A-10-0330).

Attached is the Staff Report for Heart Cab Co., Inc. dba Sulger Water Company #2's applications for a permanent rate increase and financing approval. Staff recommends approval of the rate increase and financing request applications using Staff's rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before November 1, 2010.

SMO:JMM:kdh

Originator: Jeffrey M. Michlik

RECEIVED
2010 OCT 22 PM 3:59
AZ CORP COMMISSION
DOCKET CONTROL

Service List for: Heart Cab Co., Inc. dba Sulger Water Company #2
Docket Nos. W-02355A-09-0275 and W-02355A-10-0330

Mrs. Valerie Betts
President
Heart Cab Co., Inc. dba Sulger Water Company #2
1380 W. Caroline Lane
Tempe, Arizona 85284

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

HEART CAB CO., INC. DBA SULGER WATER COMPANY #2

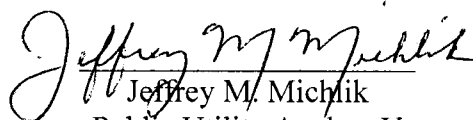
DOCKET NOS. W-02355A-09-0275 and W-02355A-10-0330

**APPLICATIONS FOR A
PERMANENT RATE INCREASE AND FINANCING APPROVAL**

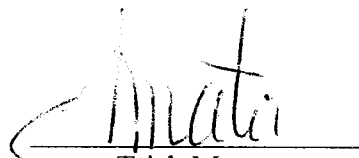
October 22, 2010

STAFF ACKNOWLEDGMENT

The Staff Report for Heart Cab Co., Inc. dba Sulger Water Company #2, Docket Nos. W-02355A-09-0275 and W-02355A-10-0330 was the responsibility of the Staff members listed below. Jeffrey M. Michlik was responsible for the financial review and analysis of the Company's applications, recommended revenue requirement, rate base, rate design, and financing. Marlin Scott Jr. was responsible for the engineering and technical analysis. Trish Meeter was responsible for reviewing the Commission's records on customer complaints filed with the Commission.


Jeffrey M. Michlik
Public Utility Analyst V


Marlin Scott Jr.
Utilities Engineer


Trish Meeter
Consumer Analyst I

EXECUTIVE SUMMARY
HEART CAB CO., INC. DBA SULGER WATER COMPANY #2
APPLICATION FOR A PERMANENT RATE INCREASE AND FINANCING
DOCKET NOS. W-02355A-09-0275 and W-02355A-10-0330

Heart Cab Co., Inc. dba Sulger Water Company #2 ("Company") is a class E water utility engaged in the business of providing water services to customers near an area north of Huachuca City in Cochise County, Arizona. The Company provides service to approximately 18 metered customers and its current emergency rates became effective September 22, 2008, per Arizona Corporation Commission ("Commission") Decision No. 70619.

Rate Case:

The Company's rate application requested an increase in revenue of \$0, or 0.00 percent, over test year revenue of \$8,886 (produced by interim rates). The Company's proposed revenues of \$8,886 result in an operating loss of \$6,678, and a negative operating margin. The Company proposed an original cost rate base ("OCRB") of \$113,146.¹ The Company filed a rate case at this time to comply with Commission Decision No. 70619, which ordered the Company to file a new rate case application by June, 1, 2009. The Company is not seeking a rate increase above interim rates, but is asking that the emergency rates be made permanent. The typical residential bill with a median usage of 3,600 gallons would remain unchanged at \$38.20.

On September 8, 2010, a Procedural Order was issued ordering that the rate case, Docket No. W-02355A-09-0275, and the subsequent financing case Docket No. W-02355A-10-0330, be consolidated.

Staff has recommended an OCRB of \$889. Staff utilized a cash flow analysis to determine the revenue requirement, due to the Company's small rate base. Applying a rate of return to rate base does not produce sufficient revenues to cover the Company's operating needs.

Staff's recommended rates would increase revenue by \$297, or 3.34 percent, over adjusted test year revenues of \$8,886. Staff's revenues of \$9,183 result in operating income of \$918. Staff's recommended rates for the typical residential bill with a median usage of 3,600 gallons would remain unchanged at \$38.20.

Financing:

The Company requests authorization to issue debt in the form of a Water Infrastructure Finance Authority ("WIFA") loan in the amount of \$115,000 for plant improvements. Staff recommends authorization of a WIFA loan in the amount of \$56,120, subject to certain restrictions.

¹ The Company did not propose a fair value rate base that differs from the OCRB.

Staff's estimated monthly infrastructure surcharge rate of \$20.57 per customer would increase the typical residential bill with a median usage of 3,600 gallons from \$38.20 to \$58.77, for an increase of \$20.57, or 53.85 percent.

Recommendations:

Staff recommends approval of its rates and charges as shown in Schedule JMM-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

Staff recommends that the Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

Staff recommends that the Company be ordered to install wellhead meters, and that the Company file with Docket Control by December 31, 2011, as a compliance item in this Docket, documentation demonstrating that the wellhead meters have been installed.

Staff further recommends that the Company be ordered to utilize the depreciation rates delineated in Table B of the Engineering Report on a going-forward basis.

In an effort to help the Company come into compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts ("NARUC USOA"), Staff recommends the following:

1. That the Company immediately begin keeping all of its plant-in-service and expense information in accordance with the NARUC USOA.
2. That the Company file as a compliance item, within 30 days of this Decision, a plan for Staff approval that describes how the Company intends to bring its books and records into conformance with the NARUC USOA.
3. That the Company file as a compliance item, within 120 days of this Decision, an affidavit confirming that its accounting system has been updated to comply with the NARUC USOA.

Staff recommends approval of the loan and infrastructure surcharge mechanism subject to the five conditions stated in the financing section of this report.

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Engineering Report (Rates)	A
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Fact Sheet

Type of Ownership: Arizona Non-Profit Corporation.

Location: The Company serves water customers in an unincorporated portion of Cochise County near Huachuca City, Arizona.

Rates: Permanent rate increase application filed: June 1, 2009. The application was deemed sufficient on June 4, 2010.

Emergency Rates: Decision No. 70619, dated November 19, 2008.

Prior Test Year: 1978, the original Certificate of Convenience and Necessity ("CC&N") was granted in Decision No. 50157 (August 13, 1979).

Current Test Year Ended: December 31, 2009.

Metered Rates:

	Company Current <u>Interim Rates</u>	Company Proposed <u>Rates</u>	Staff Recommended <u>Rates</u>
<u>Monthly Minimum Charge</u> Based on 5/8 x 3/4 inch meter	\$31.00	\$31.00	\$31.00
<u>Commodity Rates Per 1,000 Gallons:</u>			
Tier One from 1 gallon to 5,000 gallons	\$ 2.00	\$ 2.00	N/A
Tier Two from 5,001 gallons to 10,000 gallons	\$ 2.75	\$ 2.75	N/A
Tier Three all gallons over 10,001	\$ 3.90	\$ 3.90	N/A
Tier One from 1 gallon to 3,000 gallons	N/A	N/A	\$ 1.80
Tier Two from 3,001 gallons to 10,000 gallons	N/A	N/A	\$ 3.00
Tier Three all gallons over 10,001	N/A	N/A	\$ 4.54
<u>Typical residential bill</u> (based on median usage of 3,600 gallons)	\$38.20	\$38.20	\$38.20

Customers:

The Company serves 18 customers.

Fact Sheet (Continued)

Notifications:

Customer notification was filed with the Arizona Corporation Commission on June 10, 2010 for the rate case application.

Customer notification was filed with the Arizona Corporation Commission on August 3, 2010 for the financing application.

Complaints:

January 1, 2007 – September 10, 2010:

2 Complaints

0 Inquiry

2 Opinions (opposed to the emergency rate application)

Summary of Rate Filing

On June 1, 2009, Heart Cab Co., Inc. dba Sulger Water Company #2 ("Company") filed an application for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On June 4, 2010, the application was deemed sufficient by the Utilities Division Staff ("Staff").

Based on test year results, as adjusted by Staff, the Company had a an operating income of \$814, as shown on Schedule JMM-1.

The Company's rate application requested an increase in revenue of \$0, or 0.00 percent over test year revenue of \$8,886 (produced by interim rates). The Company's proposed revenues of \$8,886 result in an operating loss of \$6,678, and a negative operating margin. The Company proposed an original cost rate base ("OCRB") of \$113,146.² The Company is not seeking a rate increase above its interim rates, and the typical residential bill with a median usage of 3,600 gallons would remain unchanged at \$38.20.

Staff has recommended an OCRB of \$889. Staff utilized a cash flow analysis to determine the revenue requirement, due to the Company's small rate base. Applying a rate of return to rate base does not produce sufficient revenues to cover the Company's operating needs.

Staff's recommended rates would produce operating revenues of \$9,183 and result in an operating income of \$918, and an operating margin of 10 percent. Staff's recommended rates for

² The Company did not propose a fair value rate base that differs from the OCRB.

the typical residential bill with a median usage of 3,600 gallons would remain unchanged at \$38.20.

The Company utilized a test year ending December 31, 2009.

COMPANY BACKGROUND

The Company is a class E water Company engaged in the business of providing water services to customers in an unincorporated portion of Cochise County near Huachuca City, Arizona. The Company provides services to approximately 18 metered customers. The Company was granted a CC&N on August 13, 1979 in Decision No. 50157. The Company's current emergency rates were approved on November 19, 2008, per Commission Decision No. 70619.

The Company filed a rate case at this time to comply with Commission Decision No. 70619, which ordered the Company to file a new rate case application by June 1, 2009.

The Company filed a permanent rate increase application on June 1, 2009. After several meetings with the Company's president Valarie Betts, the application was deemed sufficient on June 4, 2010.

CONSUMER SERVICES

A review of the Consumer Services Section database for the Company from January 1, 2007, through September 10, 2010, revealed that in 2007 and 2008 there were zero complaints, zero inquires, and zero opinions. In 2009 there was one complaint (deposits), zero inquires, and one opinion (opposing the emergency rate application). In 2010 there was one complaint (billing), zero inquires, and one opinion (opposing the emergency rate application). All complaints have been resolved and closed.

COMPLIANCE

The Utilities Division Compliance Section reflects no outstanding compliance issues.

The Company is not within an Active Management Area. According to the Arizona Department of Water Resources ("ADWR"), this Company is in compliance with ADWR's requirements governing water providers and/or community water systems.

The Arizona Department of Environmental Quality ("ADEQ") regulates the Company's water system under ADEQ Public Water System ("PWS") #02-120. Based on compliance information submitted by the Company, ADEQ reported no deficiencies and is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

The Corporations Division of the Commission indicates the Company is in good standing.

The Company has a certificate of good standing from the Arizona Department of Revenue, dated June 3, 2009.

ENGINEERING ANALYSIS

The plant facilities were visited on July 14, 2010, by Staff Engineer Mr. Marlin Scott, Jr., in the accompaniment of Mr. Tim Sulger, representing the Company. A complete discussion of Staff's technical findings and recommendations and a complete description of the Company's system is provided in the attached Staff Engineering Report.

RATE BASE

Staff decreased rate base by \$112,257 from \$113,146 to \$889. The change was the result of Staff's recalculation of accumulated depreciation, Staff's imputation of Contributions-in-aid-of-construction ("CIAC") and amortization of CIAC, and the inclusion of the formula-method for cash working capital allowance in the amount of \$889.

PLANT-IN-SERVICE:

The Company provided Staff with no invoices to support its plant in service costs. Staff Engineer Mr. Marlin Scott, Jr., examined the plant in service, and has verified that the Company does indeed have the plant-in-service. Staff Engineer Mr. Marlin Scott, Jr., did not conduct a reconstruction cost analysis, however, Mr. Scott, believes the Company's plant in service amount of \$151,458 to be reasonable, and has recommended the reclassification of some plant items on a going-forward basis, as shown on schedule JMM-1 page 2 of 3.

Staff recommends that, in the future, the Company be required to maintain plant documentation for all plant in service.

ACCUMULATED DEPRECIATION:

Since there were no plant invoices to support the Company's plant-in-service, Staff recalculated the depreciation rates based on the Company's *representation only* of plant additions and retirements in the application. Staff used a composite rate of 5 percent which was the customary rate, used in old rate cases, and brought this rate forward to calculate the accumulated depreciation associated with plant-in-service.

CIAC:

As noted above, since there were no plant invoices to support the Company's plant-in-service, Staff does not know whether the Company paid for these plant items or if the items were

contributed to the Company. As such Staff attributed all plant-in-service to CIAC, and matched accumulated depreciation to the amortization of CIAC.

WORKING CAPITAL:

The Company neglected to claim any cash working capital allowance. Staff included a cash working capital allowance of \$889, calculated using the formula-method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses plus one twenty-fourth of purchased power and purchased water expenses.

OPERATING REVENUE

Staff concurs with the Company's test year revenue of \$8,886.

OPERATING EXPENSES

Staff's adjustments to operating expenses resulted in a decrease of \$7,492 from \$15,564 to \$8,072, as shown on Schedule JMM-3 page 1. The adjustments are explained below.

Office Supplies and Expense – Adjustment A decreased office supplies and expenses expense by \$1,251, from \$1,651 to \$400. The Company failed to substantiate any of these expenses. Staff adjusted this amount to what it believes is a customary amount for a water company this size.

Water Testing Expense – Adjustment B increased water testing expense by \$186, from \$2,275 to \$2,461, to reflect the amount recommended by Staff.

Rate Case Expense – Adjustment C decreased rate case expense by \$574, from \$718 to \$144, to reflect total rate case expense of \$718 normalized over 5 years.

Miscellaneous Expense and Taxes other than Income – Adjustment D increased miscellaneous expense by \$480 from \$0 to \$480, and decreased Taxes other than Income taxes by \$480 from \$480 to \$0. The Company failed to substantiate any of this expense. Staff could not determine if the Company had paid for any taxes other than income. However, Staff has reclassified this amount into miscellaneous expense, based on what Staff believes is a customary amount for a water company this size.

Depreciation Expense – Adjustment E decreased depreciation expense by \$5,903, from \$5,903 to \$0, to match Staff's calculation of CIAC amortization.

Income Tax Expense – Adjustment F increased income tax expense by \$50, from \$0 to \$50, to reflect the Arizona Department of Revenue filing fee.

When conducting the audit of the Company's financial records, it became apparent that the Company was not following the National Association of Regulatory Utility Commissioners' Uniform System of Accounts ("NARUC USOA").

NARUC's accounting instructions clearly state, "Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of accounts so as to be able to furnish readily full information as to any time included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts relevant thereto."

In an effort to help the Company come into compliance with the NARUC USOA, Staff recommends the following:

1. That the Company immediately begin keeping all of its plant-in-service and expense information in accordance with the NARUC USOA.
2. That the Company file as a compliance item, within 30 days of this Decision, a plan for Staff approval that describes how the Company intends to bring its books and records into conformance with the NARUC USOA.
3. That the Company file as a compliance item, within 120 days of this Decision, an affidavit confirming that its accounting system has been updated to comply with the NARUC USOA.

REVENUE REQUIREMENT

Staff recommends total operating revenue of \$9,183, an increase of \$297 over test year revenue of \$8,886. Staff's recommendation provides operating income of \$918.

Staff utilized a cash flow analysis to determine the revenue requirement, due to the Company's small rate base. Applying a rate of return to rate base does not produce sufficient revenues to cover the Company's operating needs.

Staff's recommendation provides an adequate level of revenue to cover operating expenses and other contingencies. See Schedule JMM-1.

RATE DESIGN

The Company is not seeking a rate increase above interim rates, and the typical residential bill with a median usage of 3,600 gallons would remain unchanged at \$38.20.

Staff's recommended rates for the typical residential bill with a median usage of 3,600 gallons would also remain unchanged at \$38.20.

Staff recommends service line and meter installation charges consistent with Table C of the Engineering Report. For service charges, Staff recommends charges that are consistent with the tariffs of other water companies.

FINANCING

Introduction

On July 28, 2010, the Company filed a financing application requesting authorization to incur debt from the Water Infrastructure Finance Authority ("WIFA") in the amount of \$115,000 for capital improvement projects.

Public Notice

Customer notification was filed with the Commission on August 3, 2010, for the financing application.

Purpose and Terms of the Proposed Financing

A Water System Evaluation ("WSE") was completed in July of 2009, by the Arizona Department of Environmental Quality ("ADEQ"), which identified several improvement projects to increase system operations and safety.

The improvement projects identified by WSE have an estimated total cost of \$128,800. Based on Staff's understanding, any amount over \$115,000 will be the responsibility of the Company.

Engineering Analysis of the Proposed Financing

Staff has found the improvement projects and the associated costs to be reasonable and appropriate, except for the 50,000 gallon storage tank. Staff's recommendation for a 5,000 gallon storage tank instead of a 50,000 gallon storage tank results in substantial costs savings. Staff recommends a revised capital improvement project amount of \$56,120. A complete discussion of the project and costs are discussed in the attached Engineering Report.

Financial Analysis

Staff has determined that the improvement projects are reasonable and appropriate and recommends an infrastructure surcharge as the mechanism to recover the costs associated with the WIFA loan.

Staff examined the effects of the proposed financing on the Company's Times Interest Earned Ratio ("TIER") and Debt Service Coverage ("DSC"), discussed below and shown on Schedule JMM-6.

Times Interest Earned Ratio and Debt Service Coverage

TIER represents the number of times earnings before income tax expense covers interest expense on debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term.

DSC represents the number of times internally generated cash (i.e. earnings before interest, income tax, depreciation and amortization expenses) covers required principle and interest payments on debt. A DSC greater than 1.0 means operating cash flow is sufficient to cover debt obligations.

Fully drawing on the WIFA loan in the amount of \$56,120 at an interest rate of 5.00 percent over 20 years and taking into consideration Staff's recommended revenue requirement and Staff's estimated surcharge results in a pro forma TIER and DSC of 2.03 and 1.24, respectively. The pro forma TIER and DSC show that the Company would have adequate cash flow to meet all obligations including the proposed debt.

Staff has calculated an estimated infrastructure surcharge of \$20.57 per customer, as shown in Schedule JMM-7. Staff first determined the annual principle and interest payment that would be required for a 20-year loan in the amount of \$56,120 at 5 percent interest; the result was \$4,444. Staff then determined the number of equivalent annual bills, which in this case is 216 (18 customers x 12 months = 216). The monthly surcharge amount of \$20.57 per customer was then calculated by dividing the principle and interest payment by the number of annual bills ($\$4,444 \div 216 = \20.57). The actual surcharge amount may be more or less depending on the prevailing WIFA interest rate at the time the loan is executed.

Staff has also included a typical bill analysis using Staff's estimated monthly surcharge (see Schedule JMM-8).

Staff's estimated surcharge of \$20.57 per customer would increase the typical residential bill with a median usage of 3,600 gallons from \$38.20 to \$58.77, for an increase of \$20.57 or 53.85 percent.

Staff Conditions

Staff recommends approval of the loan and infrastructure surcharge subject to the following process and conditions:

1. The Company shall provide, as a compliance item in this docket, within 30 days of the agreement, copies of the executed loan agreement between the Company and WIFA.
2. Within 30 days of the Company's filing, Staff will calculate the actual

infrastructure surcharge and prepare a memo and proposed order for consideration at the next available Commission open meeting.

3. Upon Commission approval of the infrastructure surcharge, the Company will open a separate interest-bearing account in which all surcharge monies collected from customers will be deposited.
4. The only disbursement of funds from this account will be payments made to WIFA for the interest and principal on the loan.
5. To help ensure that the infrastructure surcharges are not being misused, the Company shall file for Staff review, as a compliance item in this docket, by January 30th of each year, copies of the prior year's monthly bank statements for the account.

Staff Recommendations

Staff recommends approval of its rates and charges as shown in Schedule JMM-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

Staff recommends that the Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

Staff recommends that the Company be ordered to install wellhead meters, and that the Company file with Docket Control by December 31, 2011, as a compliance item in this Docket, documentation demonstrating that the wellhead meters have been installed.

Staff further recommends that the Company be ordered to utilize the depreciation rates delineated in Table B of the Engineering Report on a going-forward basis.

In an effort to help the Company come into compliance with the NARUC USOA, Staff recommends the following:

1. That the Company immediately begin keeping all of its plant-in-service and expense information in accordance with the NARUC USOA.
2. That the Company file as a compliance item, within 30 days of this Decision, a plan for Staff approval that describes how the Company intends to bring its books and records into conformance with the NARUC USOA.
3. That the Company file as a compliance item, within 120 days of this

Decision, an affidavit confirming that its accounting system has been updated to comply with the NARUC USOA.

Staff recommends approval of the loan and infrastructure surcharge mechanism subject to the five conditions stated in the financing section of this report.

Staff recommends that the Company file with Docket Control, as a compliance item in the docket, by December 31, 2011, a copy of the ADEQ Certificate for Approval of Construction for the installation of the 1,500 gallon pressure tank and 5,000 gallon storage tank.

Carmen Madrid

From: Carmen Madrid
Sent: Friday, October 22, 2010 2:21 PM
To: UTIL-Outagell
Subject: OUTAGE I - VALLE VERDE WATER COMPANY

PER: Gloria Garza Wells @ Southwestern Utility Mgt., Inc
TELEPHONE NO.: 520-623-5172
COMPANY: Valle Verde Water Company
WHAT: outage
WHEN: Friday, 10-22-2010 @ 11:25 a.m. to ??????
WHERE: Diaz Lane, Bitache, and Silver Reef in Nogales, AZ
GEOGRAPHIC LOCATION OF COMPANY: Nogales, AZ
CAUSE: replace a broken valve
ACTION: repair to line in progress
DURATION: approximately 1 1/2 to 2 hours
CUSTOMERS AFFECTED: 100
ADDITIONAL INFORMATION:

WHO DAMAGED UTILITIES PROPERTY: N/A

Heart Cab Company, Inc., dba Sulger Water Company # 2
Docket Nos. W-02355A-09-0275 and W-02355A-10-0330
Test Year Ended December 31, 2009

Schedule JMM-1

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$8,886	\$8,886	\$8,886	\$9,183
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
Total Operating Revenue	\$8,886	\$8,886	\$8,886	\$9,183
Operating Expenses:				
Operation and Maintenance	\$8,988	\$7,829	\$8,988	\$7,829
Depreciation	5,903	0	5,903	0
Property & Other Taxes	673	193	673	193
Income Tax	0	50	0	243
Total Operating Expense	\$15,564	\$8,072	\$15,564	\$8,265
Operating Income/(Loss)	(\$6,678)	\$814	(\$6,678)	\$918
Rate Base O.C.L.D.	\$113,146	\$889	\$113,146	\$889
Rate of Return - O.C.L.D.	N/M	N/M	N/M	N/M
Operating Margin	N/M	9.16%	N/M	10.00%

NOTE: Operating margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

RATE BASE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$151,458	\$0	A	\$151,458
Less:				
Accum. Depreciation	38,312	47,556	B	85,868
Net Plant	\$113,146	(\$47,556)		\$65,590
Less:				
Plant Advances	\$0	\$0		\$0
Accumulated Deferred Income Taxes	0	0		0
Total Advances	\$0	\$0		\$0
Contributions Gross	\$0	\$151,458	C	151,458
Less:				
Amortization of CIAC	0	85,868	C	85,868
Net CIAC	\$0	\$65,590		\$65,590
Total Deductions	\$0	\$65,590		\$65,590
Plus:				
1/24 Power	\$0	\$45	D	\$45
1/8 Operation & Maint.	0	844	D	844
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$889		\$889
Rate Base	\$113,146	(\$112,257)		\$889

Explanation of Adjustment:

- A See Schedule JMM-2 page 2 of 3 for these adjustments.
- B Staff's re-calculation of accumulated depreciation at a composite rate of 5 percent. See Schedule JMM-2 page 3 of 3 for this adjustment.
- C Staff's imputation of CIAC and Amortization of CIAC.
- D Staff's inclusion of the formula-method for determining cash working capital based on Staff's recommended operating expenses.

Heart Cab Company, Inc., dba Sulger Water Company # 2

Docket Nos. W-02355A-09-0275 and W-02355A-10-0330

Test Year Ended December 31, 2009

Schedule JMM-2

Page 2 of 3

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	5,000	0	5,000
304 Structures & Improvements	2,876	0	2,876
307 Wells & Springs	22,421	0	22,421
311 Pumping Equipment	4,870	0	4,870
320 Water Treatment Equipment	0	0	0
320.1 Water Treatment Plants	0	0	0
320.2 Solution Chemical Feeders	490	(490) A	0
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	37,914	(32,914) A	5,000
330.2 Pressure Tanks	0	8,000 A	8,000
331 Transmission & Distribution Mains	68,044	19,503 A	87,547
333 Services	0	6,590 A	6,590
334 Meters & Meter Installations	2,434	(689) A	1,745
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	365	0	365
340.1 Computers & Software	400	0	400
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	6,644	0	6,644
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$151,458	\$0	\$151,458

Explanation of Adjustment:

A Staff reclassified some Plant-in-Service items, the net result is zero.

Heart Cab Company, Inc., dba Sulger Water Company # 2
Docket Nos. W-02355A-09-0275 and W-02355A-10-0330
Test Year Ended December 31, 2009

Schedule JMM-2
Page 3 of 3

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$38,312
Accumulated Depreciation - Per Staff	85,868
Total Adjustment	\$47,556 B

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$8,886	\$0	\$8,886
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	0	0	0
Total Operating Revenue	\$8,886	\$0	\$8,886
Operating Expenses:			
601 Salaries and Wages	\$1,721	\$0	\$1,721
610 Purchased Water	0	0	0
615 Purchased Power	1,078	0	1,078
618 Chemicals	0	0	0
620 Repairs and Maintenance	823	0	823
621 Office Supplies & Expense	1,651	(1,251) A	400
630 Outside Services	690	0	690
635 Water Testing	2,275	186 B	2,461
641 Rents	0	0	0
650 Transportation Expenses	32	0	32
657 Insurance - General Liability	0	0	0
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	718	(574) C	144
675 Miscellaneous Expense	0	480 D	480
403 Depreciation Expense	5,903	(5,903) E	0
408 Taxes Other Than Income	480	(480) D	0
408.11 Property Taxes	193	0	193
409 Income Tax	0	50 F	50
Total Operating Expenses	\$15,564	(\$7,492)	\$8,072
OPERATING INCOME/(LOSS)	(\$6,678)	\$7,492	\$814

STAFF ADJUSTMENTS

A -	OFFICE SUPPLIES AND EXPENSE - Per Company	\$1,651	
	Per Staff	400	(\$1,251)

The Company failed to substantiate any of this expense. Staff adjusted this amount to what it believes is a customary amount for a water company of this size.

B -	WATER TESTING - Per Company	\$2,275	
	Per Staff	2,461	\$186

To reflect the amount recommended by the Staff.

C -	RATE CASE EXPENSE - Per Company	\$718	
	Per Staff	144	(\$574)

To reflect Staff's normalization of rate case expense over 5 years.

D -	MISCELLANEOUS EXPENSE - Per Company	\$0	
	Per Staff	480	\$480

	TAXES OTHER THAN INCOME - Per Company	\$480	
	Per Staff	0	(\$480)

The Company failed to substantiate any of this expense. Staff reclassified Taxes other than Income Taxes to Miscellaneous Expense. Staff adjustment reflects what it believes is a customary amount for a water company of this size.

E -	DEPRECIATION - Per Company	\$5,903	
	Per Staff	0	(\$5,903)

Explanation of Adjustment:

Pro Forma Annual Depreciation Expense:

Plant in Service	\$151,458
Less: Non Depreciable Plant	5,000
Fully Depreciated Plant	0
Depreciable Plant	\$146,458
Times: Staff Proposed Depreciation Rate	2.8945%
Credit to Accumulated Depreciation	\$4,239 *
Less: Amort. of CIAC* @ 2.89%	4,239
Pro Forma Annual Depreciation Expense	\$0

* Amortization of CIAC:

Contribution(s) in Aid of Construction (Gross)	\$151,458
Less: Non Amortizable Contribution(s)	5,000
Fully Amortized Contribution(s)	0
Amortizable Contribution(s)	\$146,458
Times: Staff Proposed Amortization Rate	2.8945%
Amortization of CIAC	\$4,239

F -	INCOME TAX - Per Company	\$0	
	Per Staff	50	\$50

To reflect Arizona Department of Revenue filing fee.

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
<u>5/8" x 3/4" Meter</u>	\$31.00	\$31.00	\$31.00
3/4" Meter	31.00	31.00	46.50
1" Meter	31.00	31.00	77.50
1 1/2" Meter	31.00	31.00	155.00
2" Meter	31.00	31.00	248.00
3" Meter	31.00	31.00	496.00
4" Meter	31.00	31.00	775.00
6" Meter	31.00	31.00	1,550.00
Gallons included in Minimum	0.00	0.00	0.00
Commodity Charge in Excess of Minimum (Charge Per 1,000 Gallons)	0.00	0.00	0.00
<u>All Customer Classes</u>			
1 - 5,000 gallons	\$ 2.00	\$ 2.00	N/A
5,001 - 10,000 gallons	2.75	2.75	N/A
Over 10,000 gallons	3.90	3.90	N/A
<u>5/8" x 3/4" Meter and 3/4" Meter (Residential)</u>			
1 - 3,000 gallons	N/A	N/A	\$ 1.80
3,001 - 10,000 gallons	N/A	N/A	3.00
Over 10,000 gallons	N/A	N/A	4.54
<u>5/8" x 3/4" Meter and 3/4" Meter (Industrial & Commercial)</u>			
1 - 10,000 gallons	N/A	N/A	3.00
Over 10,000 gallons	N/A	N/A	4.54
<u>1" Meter (Residential, Industrial & Commercial)</u>			
1 - 28,000 gallons	N/A	N/A	3.00
Over 28,000 gallons	N/A	N/A	4.54
<u>1 1/2" Meter (Residential, Industrial & Commercial)</u>			
1 - 75,000 gallons	N/A	N/A	3.00
Over 75,000 gallons	N/A	N/A	4.54
<u>2" Meter (Residential, Industrial & Commercial)</u>			
1 - 130,000 gallons	N/A	N/A	3.00
Over 130,000 gallons	N/A	N/A	4.54
<u>3" Meter (Residential, Industrial & Commercial)</u>			
1 - 290,000 gallons	N/A	N/A	3.00
Over 290,000 gallons	N/A	N/A	4.54
<u>4" Meter (Residential, Industrial & Commercial)</u>			
1 - 450,000 gallons	N/A	N/A	3.00
Over 450,000 gallons	N/A	N/A	4.54
<u>6" Meter (Residential, Industrial & Commercial)</u>			
1 - 1,500,000 gallons	N/A	N/A	3.00
Over 1,500,000 gallons	N/A	N/A	4.54

RATE DESIGN - (Cont.)

Service Line and Meter Installation Charges			Service Line Charge	Meter Installation	Total Recommend
5/8" x 3/4" Meter	\$100.00	\$520.00	\$415.00	\$105.00	\$520.00
3/4" Meter	120.00	620.00	\$415.00	\$205.00	\$620.00
1" Meter	160.00	730.00	\$465.00	\$265.00	\$730.00
1½" Meter	300.00	995.00	\$520.00	\$475.00	\$995.00
2" Meter	400.00	1,795.00	\$800.00	\$995.00	\$1,795.00
3" Meter	N/A	2,635.00	1,015.00	1,620.00	\$2,635.00
4" Meter	N/A	4,000.00	1,430.00	2,570.00	\$4,000.00
6" Meter	N/A	7,075.00	2,150.00	4,925.00	\$7,075.00
Service Charges					
Establishment	N/A	\$40.00	\$35.00		
Establishment (After Hours)	N/A	50.00	50.00		
Reconnection (Delinquent)	15.00	50.00	35.00		
Reconnection (Delinquent) after hours	N/A	70.00	55.00		
Meter Test (If Correct)	N/A	35.00	35.00		
Deposit	60.00	***	*		
Deposit Interest	N/A	*	*		
Re-Establishment (Within 12 Months)	25.00	40.00	**		
NSF Check	N/A	****	30.00		
Deferred Payment (Per Annum)	N/A	10.00%	18.00%		
Meter Re-Read (If Correct)	2.50	25.00	15.00		
Late Fee (Per Month)	N/A	30.00	1.50%		

* Per Commission Rules (R14-2-403.B)

** Months off system times the monthly minimum (R14-2-403.D)

*** \$75.00 minimum or 2 times last two months or whichever is higher

**** \$45.00 minimum or current banking fee

TYPICAL BILL ANALYSIS WITHOUT INFRASTRUCTURE SURCHARGE

General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 17

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	4,936	\$40.87	\$40.87	\$0.00	0.00%
Median Usage	3,600	\$38.20	\$38.20	\$0.00	0.00%
<u>Staff Recommend</u>					
Average Usage	4,936	\$40.87	\$42.21	\$1.34	3.28%
Median Usage	3,600	\$38.20	\$38.20	\$0.00	0.00%

Present & Proposed Rates (Without Taxes)
General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$31.00	\$31.00	0.00%	\$31.00	0.00%
1,000	33.00	33.00	0.00%	32.80	-0.61%
2,000	35.00	35.00	0.00%	34.60	-1.14%
3,000	37.00	37.00	0.00%	36.40	-1.62%
4,000	39.00	39.00	0.00%	39.40	1.03%
5,000	41.00	41.00	0.00%	42.40	3.41%
6,000	43.75	43.75	0.00%	45.40	3.77%
7,000	46.50	46.50	0.00%	48.40	4.09%
8,000	49.25	49.25	0.00%	51.40	4.37%
9,000	52.00	52.00	0.00%	54.40	4.62%
10,000	54.75	54.75	0.00%	57.40	4.84%
15,000	74.25	74.25	0.00%	80.10	7.88%
20,000	93.75	93.75	0.00%	102.80	9.65%
25,000	113.25	113.25	0.00%	125.50	10.82%
50,000	210.75	210.75	0.00%	239.00	13.40%
75,000	308.25	308.25	0.00%	352.50	14.36%
100,000	405.75	405.75	0.00%	466.00	14.85%
125,000	503.25	503.25	0.00%	579.50	15.15%
150,000	600.75	600.75	0.00%	693.00	15.36%
175,000	698.25	698.25	0.00%	806.50	15.50%
200,000	795.75	795.75	0.00%	920.00	15.61%

FINANCIAL ANALYSIS OF WIFA LOAN

Line No.	[A] Staff's Recommended Permanent Rates Without Loan	[B] Staff's Recommended Loan of \$56,120 at 5.00 Percent Interest Over 20 Years	[C] Effects of Staff's Recommended WIFA Loan
1	INCOME STATEMENT		
2			
3	Operating Revenue		
4	\$ 9,183	\$ -	\$ 9,183
5	-	4,444	4,444
6	-	-	-
7	\$ 9,183	\$ 4,444	\$ 13,627
8			
9	Operating Expenses		
10	\$ 1,721	\$ -	\$ 1,721
11	-	-	-
12	1,078	-	1,078
13	823	-	823
14	400	-	400
15	2,461	-	2,461
16	690	-	690
17	32	-	32
18	144	-	144
19	480	-	-
20	193	-	193
21	-	-	-
22	243	-	243
23	\$ 8,265	\$ -	\$ 8,265
24			
25	\$ 918	\$ 4,444	\$ 5,362
26			
27	\$ -	\$ -	\$ -
28	-	2,767	2,767
29	-	-	-
30	\$ -	\$ 2,767	\$ 2,767
31			
32	\$ 918	\$ 1,678	\$ 2,596
33			
34	\$ -	\$ 1,737	\$ 1,737
35			
36	TIER		
37	N/A		2.03
38	DSC		
39	N/A		1.24

Heart Cab Co., Inc. dba Sulger Water Company #2
Docket Nos. W-02355A-09-0275 and W-02355A-10-0330
Test Year Ended December 31, 2009

Schedule JMM-7

CALCULATION OF INFRASTRUCTURE SURCHARGE AMOUNT

Loan Amount	\$	56,120
Total Yearly Interest and Principal Payments Based on a 20-year WIFA Loan and a 5.00% Interest Rate.	\$	4,444
Total Equivalent Annual Bills (18 customers x 12 months)		216
Meter Surcharge Amount (\$4,444 / 216)	\$	20.57

Heart Cab Co., Inc. dba Sulger Water Company #2
Docket Nos. W-02355A-09-0275 and W-02355A-10-0330
Test Year Ended December 31, 2009

Schedule JMM-8

TYPICAL BILL ANALYSIS WITH INFRASTRUCTURE SURCHARGE

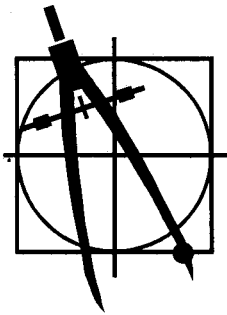
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 17

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	4,936	\$40.87	\$40.87	\$0.00	0.00%
Median Usage	3,600	\$38.20	\$38.20	\$0.00	0.00%
<u>Staff Recommend</u>					
Average Usage	4,936	\$40.87	\$62.78	\$21.91	53.61%
Median Usage	3,600	\$38.20	\$58.77	\$20.57	53.85%

Present & Proposed Rates (Without Taxes) General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$31.00	\$31.00	0.00%	\$51.57	66.35%
1,000	33.00	33.00	0.00%	53.37	61.73%
2,000	35.00	35.00	0.00%	55.17	57.63%
3,000	37.00	37.00	0.00%	56.97	53.97%
4,000	39.00	39.00	0.00%	59.97	53.77%
5,000	41.00	41.00	0.00%	62.97	53.59%
6,000	43.75	43.75	0.00%	65.97	50.79%
7,000	46.50	46.50	0.00%	68.97	48.32%
8,000	49.25	49.25	0.00%	71.97	46.13%
9,000	52.00	52.00	0.00%	74.97	44.17%
10,000	54.75	54.75	0.00%	77.97	42.41%
15,000	74.25	74.25	0.00%	100.67	35.58%
20,000	93.75	93.75	0.00%	123.37	31.59%
25,000	113.25	113.25	0.00%	146.07	28.98%
50,000	210.75	210.75	0.00%	259.57	23.16%
75,000	308.25	308.25	0.00%	373.07	21.03%
100,000	405.75	405.75	0.00%	486.57	19.92%
125,000	503.25	503.25	0.00%	600.07	19.24%
150,000	600.75	600.75	0.00%	713.57	18.78%
175,000	698.25	698.25	0.00%	827.07	18.45%
200,000	795.75	795.75	0.00%	940.57	18.20%



**Engineering Report for Heart Cab Co.,
Inc. DBA Sulger Water Company #2**

Docket No. W-02355A-09-0275 (Rates)

By Marlin Scott, Jr. 

September 2, 2010

CONCLUSIONS

- A. Heart Cab Co., Inc. DBA Sulger Water Company #2 ("Company") has adequate well and storage capacity to serve the present customer base and reasonable growth.
- B. The Arizona Department of Environmental Quality ("ADEQ") has reported no deficiencies and has determined that the Company's system, PWS #02-120, is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.
- C. The Company is not located in any Arizona Department of Water Resources ("ADWR") Active Management Area. According to the ADWR, this Company is in compliance with ADWR's requirements governing water providers and/or community water systems.
- D. A check of the Utilities Division Compliance database showed that the Company had no delinquent Commission engineering compliance items.
- E. On August 3, 2010, the Company filed a curtailment tariff and this tariff became effective on September 2, 2010.
- F. The Company has an approved backflow prevention tariff with an effective date of October 31, 2000.

RECOMMENDATIONS

- 1. The Company has no wellhead meters. Staff recommends that the Company be ordered to install wellhead meters. Staff further recommends that the Company file with Docket Control by December 31, 2011, as a compliance item in this docket, documentation demonstrating that the wellhead meters have been installed.
- 2. Staff recommends an annual water testing expense of \$661 and operator's fee of \$1,800 which total to \$2,461 be used for purposes of this application.

3. Staff recommends that the Company adopt Staff's typical and customary depreciation rates and further recommends that the Company use these depreciation rates delineated in Table B.
4. Staff recommends the adoption of its Service Line and Meter Installation Charges as delineated in Table C.

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A. INTRODUCTION

On June 1, 2009, Heart Cab Co., Inc. DBA Sulger Water Company #2 ("Company") filed a rate application which never became sufficient. On May 5, 2010, the Company re-filed its rate application using an updated test year. This latest application became sufficient on August 23, 2010. This Engineering Report constitutes Staff's engineering evaluation relative to the Company's rate application.

Location of Company

Heart Cab Co., Inc. DBA Sulger Water Company #2 ("Company") serves a community located approximately 10 miles north of Sierra Vista along State Route 90. Figure 1 shows the location of the Company within Cochise County and Figure 2 shows the Certificate of Convenience and Necessity covering approximately 0.9 square-miles.

B. DESCRIPTION OF THE WATER SYSTEM

The water system was field inspected on July 14, 2010, by Marlin Scott, Jr., Staff Utilities Engineer, in the accompaniment of Tim Sulger, representing the Company.

The current operation of the water system consists of two well sites serving 18 customers:

1. Well Site #1, located at the western end of the water system, pumps an estimated 35 gallons per minute ("GPM") directly into the distribution system.
2. Well Site #2, located near the eastern end of the system, also pumps at an estimated 35 GPM into a 5,000 gallon pressure tank. A 4,500 gallon storage tank is currently being by-passed and will be placed back into operation when a new 3-Horsepower ("Hp") booster pump is installed. This booster pump is expected to be completed in October 2010.

A system schematic is shown as Figure 3 and a detailed plant facility listing is as follows:

Table 1. Well Data

Well Information	Well #1	Well #2
ADWR ID No.	55-809118	55-809117
Casing Size	6-inch	6-inch
Casing Depth	300 ft.	320 ft.
Pump Size/Type	5-Hp Submersible	5-Hp Submersible (This 5-Hp pump was installed in May 2010.)
Well Production	35 GPM (estimated)	35 GPM (estimated)
Wellhead meter	None (need at least a 1-inch meter)	None (need at least a 1-inch meter)

Table 2. Tanks & Pumping Facilities

Location	Plant Facilities	Storage Tank
Well Site #2	5,000 gallon pressure tank (A new 3-Hp booster pump is currently being installed and will be completed in October 2010.)	4,500 gallon

Table 3. Water Mains

Diameter	Material	Length
2-inch	PVC	1,250 ft.
3-inch	PVC	650 ft.
4-inch	PVC	7,444 ft.
	Total:	9,344 ft.

Table 4. Customer Meters

Size	Quantity
5/8 x 3/4-inch	17
3/4-inch	-
1-inch	1
2-inch	-
4-inch	-
Total:	18

Table 5. Equipment & Structures

Equipment & Structures
Well #1 – Wooden shed, 8 ft. by 12 ft. and 23 ft. by 32 ft. fencing.
Well #2 – 40 ft. by 43 ft. fencing.

Arizona Department of Environmental Quality (“ADEQ”) System Evaluation

In July 2009, under the ADEQ Capacity Development Program, Narasimhan Consulting Services, Inc. (“NCS”) produced a Water System Assessment Report that evaluated the overall water system operation. This report identified existing and future water system needs as follows:

1. Each well should be equipped with a flow meter and check valve.
2. An air compressor should be installed on the pressure tank.
3. Both well sites should be equipped with a new fence, entrance gate and informational signage.
4. A purchased used 1,500 gallon pressure tank (currently being stored) should be painted with a National Science Foundation approved coating and installed at Well #1.
5. Develop a Preliminary Engineering Report (“PER”) using a Water Infrastructure and Finance Authority technical assistance grant. This PER, that usually provides more detailed plant facilities and probable costs, can subsequently be used for local grant funding.

These capital improvements, along with updated information and costs, are discussed in the financing request under Docket No. 10-0330 which is attached to this report as Attachment B.

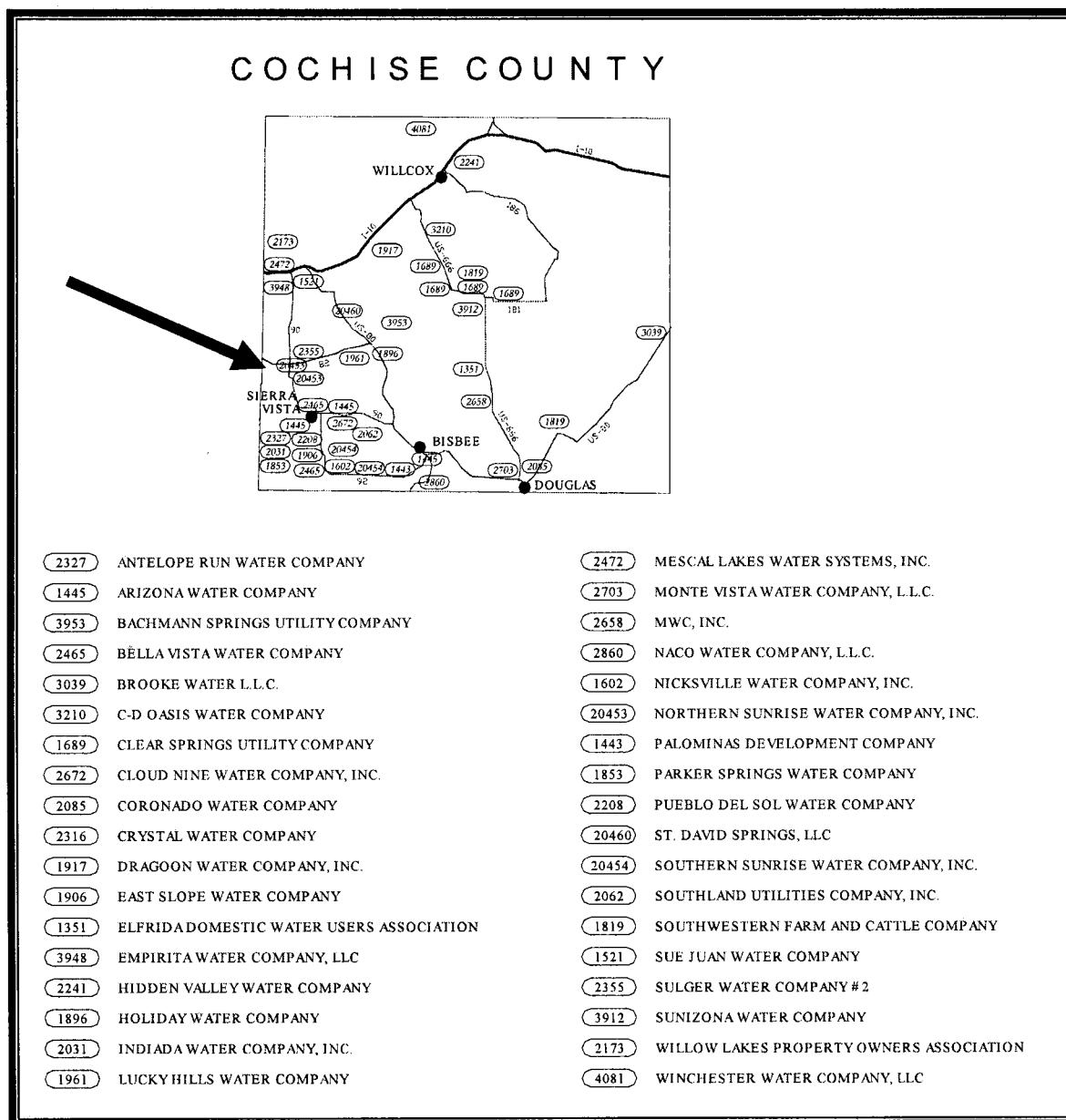


Figure 1. County Map

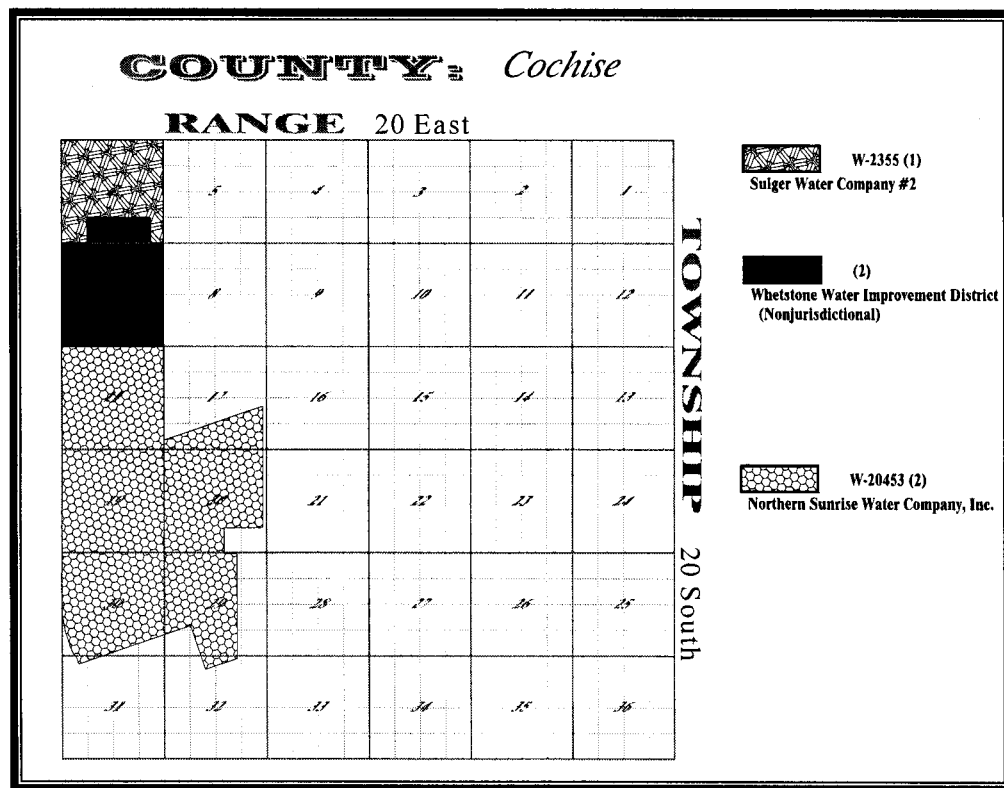


Figure 2. Certificated Area

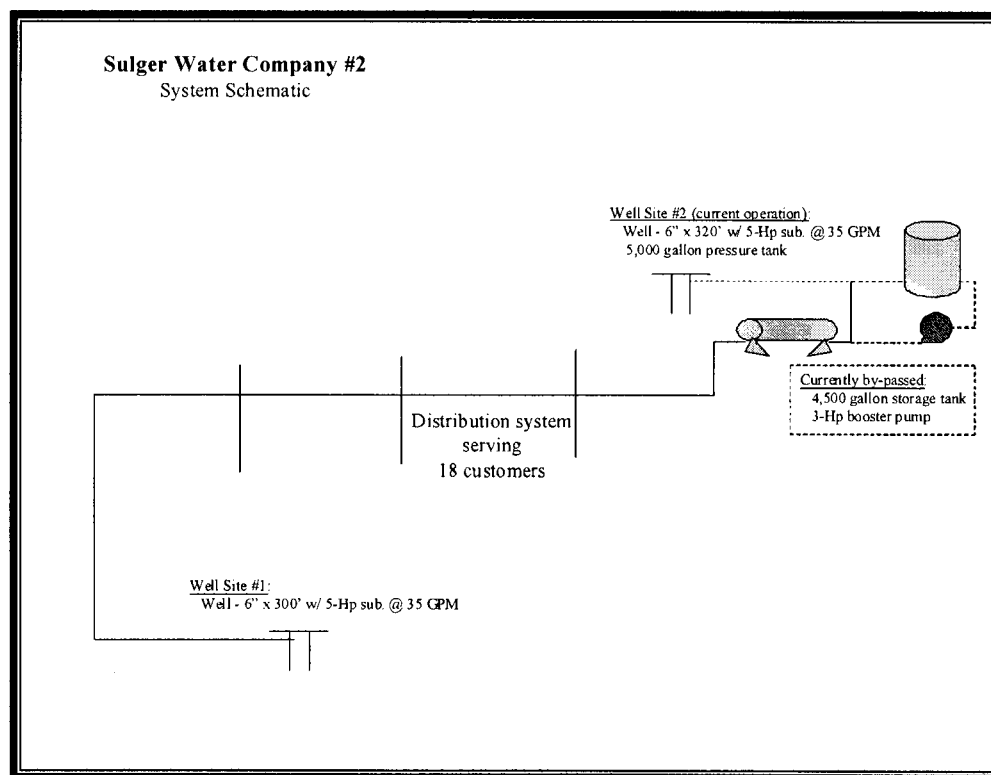


Figure 3. System Schematic

C. WATER USE

Water Sold

Figure 4 presents the water consumption data provided by the Company for the Test Year ending 2009. This figure shows the customer consumption experienced a high monthly usage of 196 gallons per day (“GPD”) per connection in April and a low monthly water use of 125 GPD per connection in January for an average monthly use of 160 GPD per connection.

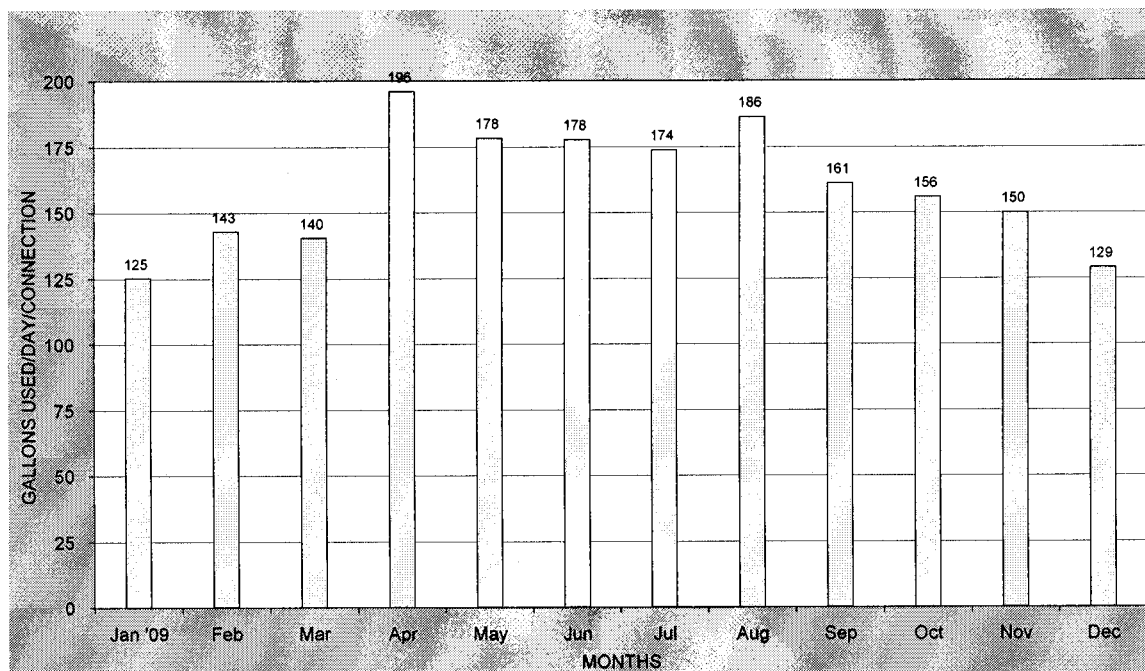


Figure 4. Water Use

Non-Account Water

Without wellhead meters installed at both well sites, the Company cannot report the number of gallons pumped; therefore, the water loss could not be determined. The Company acknowledged during Staff's field inspection that wellhead meters needed to be installed as recommended in NCS's ADEQ Water System Assessment Report. The Company estimates the cost to install these wellhead meters at \$400 per well.

Staff recommends that the Company be ordered to install wellhead meters. Staff further recommends that the Company file with Docket Control by December 31, 2011, as a compliance item in this docket, documentation demonstrating that the wellhead meters have been installed.

System Analysis

The current estimated well capacity of 70 GPM and storage capacity of 4,500 gallons is adequate to serve the present customer base and reasonable growth.

D. GROWTH

According to the Company's Annual Reports, the Company's customer base shows very minimal growth. Since 2000, the Company has added an average of two new service connections per year up to the test year customer base of 18. For purposes of its analysis, Staff anticipates that two new service connections per year will continue.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

Compliance

According to an ADEQ Compliance Status Report, dated July 27, 2010, ADEQ reported no deficiencies and has determined that the Company's system, PWS #02-120, is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). The Company reported combined water testing expense and water operator's fees of \$2,275 during the test year. Staff has reviewed these expenses and has recalculated the annual monitoring expense. Table A shows Staff's adjusted annual monitoring expense estimate of \$2,461 with participation in the MAP.

Table A. Water Testing Cost

Monitoring	Cost per test	No. of test	Annual Cost
Total coliform – monthly	\$25	12	\$300
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$294
Lead & Copper – per 3 years	\$40	5	\$67
Certified water operator - monthly	\$150	12	\$1,800
Total			\$2,461

Note: ADEQ's MAP invoice for the 2009 Calendar Year was \$293.69.

Staff recommends an annual water testing expense of \$661 and operator's fee of \$1,800 which total to \$2,461 be used for purposes of this application.

F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company is not located in any ADWR Active Management Area. According to ADWR, this Company is in compliance with ADWR's requirements governing water providers and/or community water systems.

G. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

A check of the Utilities Division Compliance database showed that the Company has no delinquent ACC engineering related compliance items.

H. DEPRECIATION RATES

The Company has been using a depreciation rate of 5.00 percent in every National Association of Regulatory Utility Commissioners ("NARUC") plant category. In recent orders, the Commission has been adopting Staff's typical and customary depreciation rates. These rates are presented in Table B and it is recommended that the Company use these depreciation rates by individual NARUC category.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33

335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company has requested changes in its service line and meter installation charges. These charges are refundable advances and the Company's requested charges are within Staff's customary range of charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, Staff recommends approval of the charges as shown in Table C below, with separate installation charges for the service line and meter.

Table C. Service Line and Meter Installation Charges

Meter Size	Company's Current Charges	Company's Proposed Charges	Proposed Service Line Charges	Proposed Meter Installation Charges	Proposed Total Charges
5/8 x 3/4-inch	\$100	\$520	\$415	\$105	\$520
3/4-inch	\$120	\$620	\$415	\$205	\$620
1-inch	\$160	\$730	\$465	\$265	\$730
1-1/2-inch	\$300	\$995	\$520	\$475	\$995
2-inch	\$400	\$1,795	\$800	\$995	\$1,795
3-inch	NT	\$2,635	\$1,015	\$1,620	\$2,635
4-inch	NT	\$4,000	\$1,430	\$2,570	\$4,000
6-inch	NT	\$7,075	\$2,150	\$4,925	\$7,075

2. Curtailment Tariff

On August 3, 2010, the Company filed a curtailment tariff under Docket No. 10-0327 and this tariff became effective on September 2, 2010.


3. Backflow Prevention Tariff

The Company has an approved backflow prevention tariff with an effective date of October 31, 2000.

MEMORANDUM

DATE: September 3, 2010

TO: Jeff Michlik
Public Utilities Analyst V
Utilities Division

FROM: Marlin Scott, Jr. 
Utilities Engineer
Utilities Division

RE: Heart Cab Co., Inc. DBA Sulger Water Company #2
Docket No. W-02355A-10-0330 (Financing)

Introduction

On July 28, 2010, Heart Cab Co., Inc. DBA Sulger Water Company #2 ("Company") submitted a financing application to assist in funding of certain capital improvement projects. The Company is requesting funding approval of \$115,000 through the use of Water Infrastructure Financing Authority ("WIFA") indebtedness, however the capital improvement projects are estimated at a cost totaling \$128,800. It is Staff's understanding that any cost that exceeds the \$115,000 amount will be the responsibility of the Company.

Existing Water System

The existing operating system consists of two wells (each estimated at 35 gallons per minute), a 5,000 gallon pressure tank and a distribution system serving 18 customers. Currently, at one well site, an existing 4,500 gallon storage tank (not connected) and a new booster pump (under construction) will be placed into operation in the near future.

Proposed Capital Improvement Projects

Water System Evaluation

The Arizona Department of Environmental Quality ("ADEQ") and WIFA have partnered to provide technical assistance to regulated public water systems ("PWSs") by providing water system evaluations ("WSEs"). These WSEs are utilized by ADEQ and WIFA to determine the priority ranking and funding needs for the PWSs and provide operational guidance to the utility.

Company's Project Descriptions

In support of the financing application, the Company submitted a copy of WSE for its water system that was completed in July 2009. Within the WSE, ADEQ identified and recommended numerous improvements, in which the Company prioritized its improvement projects based on system operation and safety as follows:

1.	At both well sites – flow meters and check valves, \$400 per site	\$800
2.	At Well #2 – air compressor on 5,000 gallon pressure tank	\$1,500
3.	At Well #1 – refurbish/install a used 1,500 gallon pressure tank	\$3,000
4.	At Well #1 – installation of a 50,000 gallon storage tank with booster system	\$100,000
5.	At both well sites – construction of new fencing	\$10,000
6.	At both well sites – concrete slabs for tanks	\$4,500
7.	At both well sites – ABC asphalt base rock and gravel roads to sites	\$9,000
	Total:	\$128,800
	Plus engineering fees	

Staff's Review

Staff has reviewed the above prioritized improvement projects and concurs with all the projects with the exception of Project #4 – 50,000 gallon storage tank. Since the Company’s water system serves only 18 customers, a 50,000 gallon storage tank would be excessive. Instead, Staff would recommend 5,000 gallon storage tank with a booster system for Well Site #1. (Well Site #2 has a 4,500 gallon storage tank.) Based on its review, Staff recommends the following revised plant and cost estimates:

1.	At both well sites – flow meters and check valves, \$400 per site	\$800
2.	At Well #2 – air compressor on 5,000 gallon pressure tank	\$1,500
3.	At Well #1 – refurbish/install a used 1,500 gallon pressure tank	\$3,000
4.	At Well #1 – installation of a 5,000 gallon storage tank with booster system	\$20,000
5.	At both well sites – construction of new fencing	\$10,000
6.	At both well sites – concrete slabs for tanks	\$4,500
7.	At both well sites – ABC asphalt base rock and gravel roads to sites	\$9,000

	Total:	\$48,800
	Engineering, 15%	\$7,320
		=====
	Grand Total:	\$56,120

Staff concludes that the above revised capital improvement projects are appropriate and the cost estimate totaling \$56,120 is reasonable.

Compliances

According to an Arizona Department of Environmental Quality ("ADEQ") Compliance Status Report, dated July 27, 2010, ADEQ reported no deficiencies and has determined that the Company's system, PWS #02-120, is currently delivering water that meets the water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

The Company is not located in any Arizona Department of Water Resources ("ADWR") Active Management Area. According to ADWR, this Company is in compliance with ADWR requirements governing water providers and/or community water systems.

A check of the Utilities Division Compliance database showed that the Company had no delinquent ACC engineering compliance items.

Conclusion/Recommendation

The Company is in compliance with ACC, ADWR and ADEQ regulations.

Staff concludes that the capital improvement projects including Staff's adjustments are appropriate and the cost estimate totaling \$56,120 is reasonable. No "used and useful" determination of the proposed project items were made and no particular treatment should be inferred for rate making or rate base purposes in the future.

Staff recommends that the Company file with Docket Control, as a compliance item in the docket, by December 31, 2011, a copy of the ADEQ Certificate for Approval of Construction for the installation of the 1,500 gallon pressure tank and 5,000 gallon storage tank.